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C O N F I D E N T I A L SECTION 01 OF 02 DOHA 000106

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SUBJECT: A/S WAYNE MEETS WITH MINISTER OF ENERGY AND
CENTRAL BANK GOVERNOR

REF: DOHA 48

Classified By: Ambassador Chase Untermeyer for reasons 1.4 (b) and (d).

11. (C) Summary. Assistant Secretary for Economic and Business Affairs E. Anthony Wayne met separately with Second Deputy Prime Minister and Minister of Energy and Industry Abdallah bin Hamad al-Attiyah and Central Bank Governor Abdullah bin Khalid al-Attiyah on January 5. Treasury DAS Ahmed Saeed also attended the meeting with the bank governor. The Minister of Energy said that there was no shortage of crude in the market and that prices of refined products are high because of a lack of refining capacity. He urged the U.S. Government to deal with the proliferating standards of gasoline in different states and cities. Qatar will become the largest LNG supplier by 2012, when it will produce 77 million tons per year. He spoke proudly of long-term supply contracts with Europe, Asia, and the US as well as transparency in oil-related contracts let by Qatar. The Central Bank Governor noted that inflation was creeping up along with the booming economy. There are no plans in GCC countries to peg currencies to the euro instead of the dollar, he stated. He also pledged cooperation on terrorist finance. End Summary.

Gasoline Standards

12. (C) Minister of Energy al-Attiyah made two points about the U.S. fuel market. A federal regulatory body is needed "to overrule the states," he said, on issues such as gasoline standards." He said there are 19 different gasoline standards in the U.S. including a separate standard for the Chicago. He also stated that gasoline prices are not related to the crude oil price but are driven up by the lack of refining capacity.

Crude Surplus

13. (C) As OPEC is producing a 1.1 million barrel a day surplus, al-Attiyah said, there is enough supply. He had not received any complaints from customers about shortages. "But there is a shortage in products," in part because companies have not invested downstream because of small profit margins.

LNG Strategy

14. (C) Qatar's strategy is to be the world's biggest supplier of LNG by 2012, when it expects to be produce 77 million tons per year, the minister said. With ExxonMobil, ConocoPhillips, Chevron, and Shell, Qatar plans to ship 25 million tons per year to the U.S. One-third of Qatar's production will go each to North America, Europe, and Asia. Characterizing LNG as being "more secure" than piped natural gas, he said there have been no delayed shipments to Japan since 1997 and that Qatar had also helped Japanese customers meet demand spikes.

15. (C) Al-Attiyah said that despite Qatar's ambitions in the LNG sector, it is vital to protect the reserves so that they last at least 100 years.

Transparency

16. (C) Qatar welcomes foreign investment in the energy sector, al-Attiyah said, while avoiding agents and middlemen and operating its energy and petrochemical sectors transparently. "Corruption in the energy sector is a common problem" in oil-rich countries, he admitted, which is why he puts such importance on avoiding it in Qatar.

Related Industries

17. (C) Qatar's petrochemical sector is also growing rapidly and the country will be the fourth-largest producer by 2012, according to the minister. "We believe we should not only export gas but also industrialize," he said. Qatar operates the largest fertilizer plant in the world, exporting it to 45 countries.

Gas Pipeline to Kuwait

18. (C) Al-Attiyah commented on the proposed gas pipeline project to Kuwait. "The Saudis did not hurt us by blocking it," he said, because Qatar had other uses for the gas and has now allocated it to other markets. However, the Saudis did hurt the Kuwaitis, who burn huge quantities of petroleum to generate electrical energy, forcing them to look to Iran for gas supplies. He said it might be possible to revisit a gas pipeline to Kuwait in the years ahead but for now all Qatar,s gas is committed elsewhere.

Central Bank: Inflation

19. (C) Qatar Central Bank Governor Abdullah bin Khalid al-Attiyah told A/S Wayne that the bank has put some limits on lending, e.g., lending to speculate on the local stock market. He said that there has been significant growth in the money supply and deposits have doubled in the last four years.
10. (C) Governor Al-Attiyah observed that along with its tremendous growth, Qatar is experiencing a significant increase in inflation, which rose in the last two years to 7 percent from the 2 to 3 percent Qatar had experienced for many years. A major factor in the rise of inflation is the steep rise in commercial and residential rents. The rising cost of construction materials is also cited as a reason for the upward trend in inflation.

Currencies Pegged to the Dollar

11. (C) All GCC countries agree that their currencies should be pegged to the U.S. dollar, the Governor said. The choice is rather simple for Qatar and other GCC countries: As oil and gas are sold in U.S. dollars, from an economic perspective it is better to use the dollar than the Euro, he commented.

Terrorist Finance

12. (C) Qatar is doing well on matters related to terrorist finance, the Governor claimed because:(1) the GOQ does a good job of supervising charities; (2) Qatar has good laws to combat terrorist finance and money laundering; (3) Qatar recently established a Financial Information Unit (FIU) to monitor and investigate suspicious monetary transactions; (4) Charities cannot open an account without QCB approval; and (5) Recently Qatar joined the Egmont Group, which will allow it to share information with other countries on terrorist finance. Wayne asked about Qatar,s progress in implementing a cash declaration policy. The Central Bank official charged with the matter said a plan to require cash declarations entering and leaving had been developed but not yet approved for implementation. Wayne urged Qatar to enact it.

13. (C) A/S Wayne expressed concern about cash carriers being used to subsidize terrorism. The QCB governor affirmed that on transactions over \$100,000 the QCB would know about it, but agreed a cash declaration policy would help address their concerns.

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